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HOUSING REQUIREMENTS TO YEAR 2001
AN UPDATE

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MANAGEMENT PLANNING &
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POLICY & PROGRAM DEVELOPMENT
SECRETARIAT
RIZWAN RANA

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EARLIER FORECASTS OF HOUSING REQUIREMENTS OVERLY OPTIMISTIC

At the beginning of 1977, the Ministry of Housing commissioned Peter Barnard & Associates to undertake a comprehensive study of Ontario's housing requirements to the year 2001.

This study drew the following four major conclusions regarding housing requirements to the year 2001:

1) Growth in housing requirements by 1977 had peaked but should remain at high levels until the mid-1980's.

2) After 1986, all areas of the province should experience a substantial decline in new housing requirements.

3) By the period 1991-96, net migration is expected to account for 46 per cent of new housing requirements.

4) Most major urban centres are planning for growth in excess of the requirements.

After examining the actual data since 1977 and gazing through the crystal ball into the foreseeable future, it seems that, although the Barnard study projected the downward trend for housing demand to the year 2001 accurately, it failed to catch the magnitude of the drop which has taken place in the recent past, as well as for the period under study.

Briefly, there are two main reasons which can explain the divergence between the projections put forward by Barnard and the recent forecasts by the Policy and Program Development Secretariat of the Ministry of Housing.

Firstly, the assumption that net migration to Ontario will remain at 50,000 people annually for the foreseeable future will probably not hold true.

Secondly, in the decade of the seventies, the rate of household formation in Ontario was at an all time high and, as a result, there was a consistently high level of demand for new housing. This was, and to some extent still is, due largely to the maturing of the 1950-55 "baby boom". This "demand bubble" led to the formation of unrealistically optimistic forecasts into the future.

The author, through this article, will endeavour to revise and update projections for housing requirements to the year 2001 using the actual data which has become available since 1977.

Shift in net migration has significant impact on the requirements:

The approach used in the updated forecast is similar to Barnard's. The determining factors are the rate at which new households are formed, age of head, divorce rates, undoubling or doubling of families, demolition and vacancy rates, and, more importantly, the net migration rates.

In the recent past, an 'in-house', computerized Housing Simulation Demand Projection Model has been developed by the Policy and Program Development Secretariat of this Ministry. This model enables the user to 'input' different key variables like headship rates, net migration and other elements to derive the housing requirements to the year 2001.

For the purpose of this article, the model used the latest population projections obtained from the Economic Analysis Branch of the Ministry of Treasury and Economics. The main determinants of these projections are low fertility rates and a zero net migration rate, and as a result considerable decline in the rate of household growth. The fertility rate

assumption is not very important in estimating households to the year 2001, because those born in 1981 will be only 20 years old in 2001. Net migration, however, is a very important factor in projecting future housing demand.

As pointed out earlier, Barnard's projections assumed the net migration to the Province of Ontario as being 50,000 annually to the year 2001. As the following table demonstrates, this assumption was overly optimistic because it did not or could not foresee the substantial drop in immigration, nor the considerable increase in emigration to other provinces, mainly to the west.

Table 1

Immigration and Migration Re: Province of Ontario

(000's)

Year	Immigration	Emigration	Net Migration
1975-76	165	132	33
1976-77	161	133	28
1977-78	160	130	30
1978-79	134	136	- 2
1979-80	131	146	-15

Source: Statistics Canada and Economic Council of Canada

As shown in Table 1, total internal and international immigration to the Province of Ontario decreased to 131,000 in 1979-80 as compared to 165,000 in 1975-76, a drop of 21 per cent. On the other hand, internal and international emigration increased by 11.0 per cent during the period 1975-76 to 1979-80. This represented a net outflow of 15,000 persons from Ontario by 1979-80 as compared to a net inflow of 33,000 persons in 1975-76.

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Growth in Annual Household Formation to be slower:

Based on the assumption discussed above, revised forecasts for total number of households and new housing demand were established. The table below shows a comparison of these forecasts generated from the Ministry's simulation model with those developed by Barnard in 1977.

Table 2

Estimates of Total Number of Households in Ontario

(000's)

Year	Barnard (50,000 net migration)	Ministry of Housing (30,000 net migration)	Ministry of Housing (zero net* migration)
1976	2,592	2,635	2,635
1981	3,013	2,993	2,945
1986	3,422	3,295	3,190
1991	3,708	3,573	3,406
1996	3,964	3,790	3,556
2001	4,211	3,971	3,664

Barnard's projection represents an increase of over 62 per cent during the 25 year period or about 2.0 per cent per annum, while the Ministry's lowest estimates indicate that over the same period total households in Ontario will increase by 39.0 per cent or 1.3 per cent per annum.

A Middle of the Road Forecast:

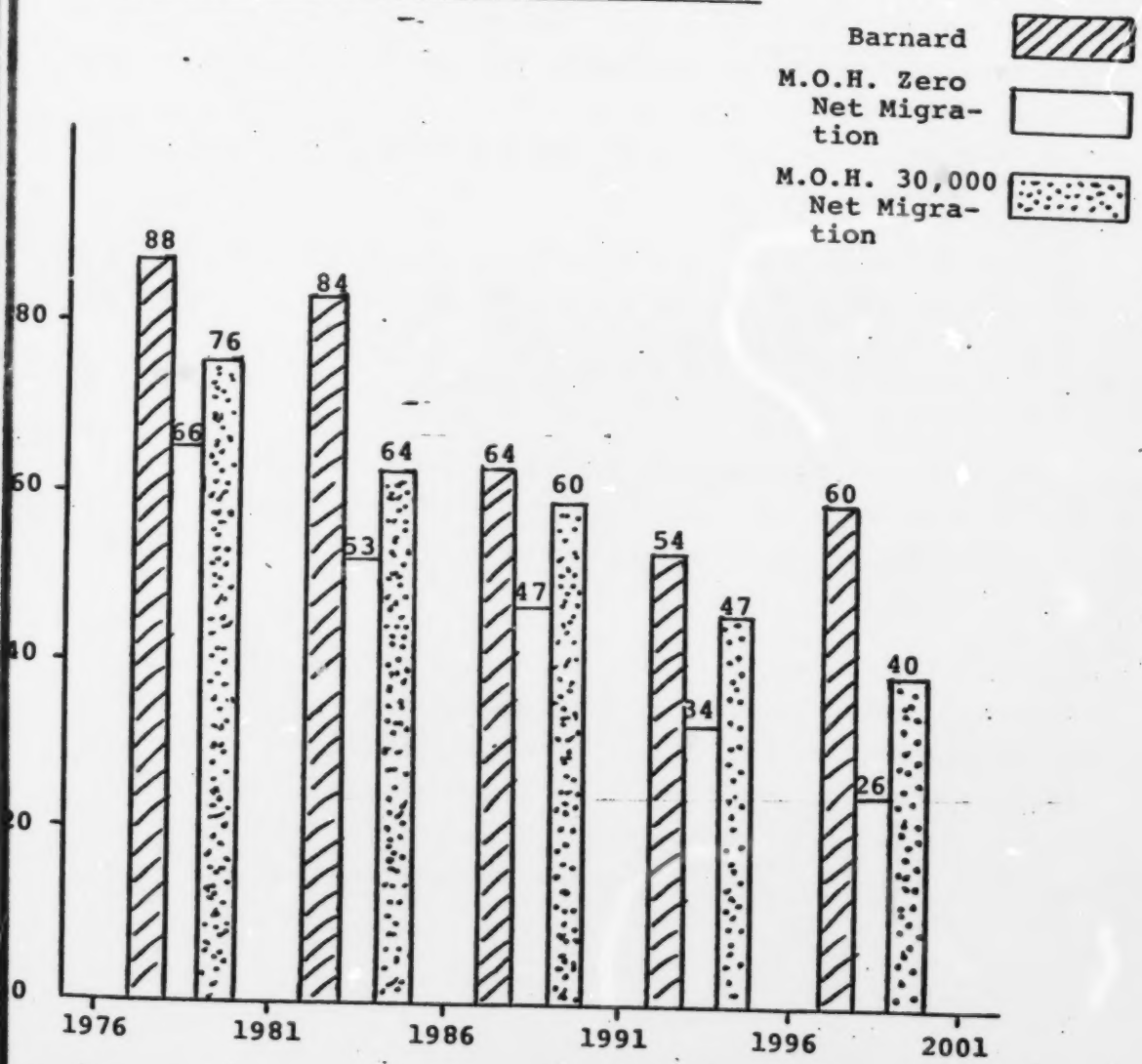
There appears no doubt that total additional housing requirements in Ontario are on a decline. The only point of contention is the magnitude and steepness of the decline.

*A recent study done by Professor Brown of the University of Waterloo shows essentially the same trends in household formation when the assumption of zero net migration is used.

As shown in Chart 1, below, Housing Requirements for Ontario will vary substantially from year to year depending on the assumptions used. For example, if an assumption of zero net migration is used, total requirements are 57 per cent lower in the last five years of this century as compared to Barnard's projections which assumed 50,000 net migration annually.

Chart 1

Average Annual Housing Requirements in Ontario in Each Five Year Period to the Year 2001



At this point it appears that net migration into Ontario to year 2001 will neither be as high as 50,000 nor as low as zero annually. Under this scenario, a figure of 30,000 net migration annually seems likely. As a result, average annual housing requirements during the period 1981-86 will be 64,000, dropping by 38 per cent to 40,000 units during the period 1996 to 2001. It should be noted that the total housing requirements in Chart 1 include units needed for replacement demand as well as for vacancy allowance.

Conclusions:

- Barnard's prediction in 1977 that growth in housing requirements will remain at high levels until the mid-1980's will not materialize. Additional housing requirements have been considerably lower than anticipated for the period 1977-81.

- Throughout the Province of Ontario, housing requirements, by the end of the century, will probably be 40 per cent lower than during the early 1980's.

- The considerable decline in new residential construction activity will result in a substantial decrease in employment in the residential construction sector.

- As the existing housing stock ages and new housing requirements decline, much more attention will be paid to rehabilitation and renovation activity by the private sector and all levels of government. Already, there is a considerable shift in this direction, not just in Ontario but throughout North America and Western Europe.

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